1;Stanford U. S-4, 5 1956 AF12 North China
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441 by the Ming Dynasty and maintained by the
175 Ch'ing rulers.

441 The business group in Shansi increasingly
453 gained experience in credit transactions, and by the nineteenth century had achieved a dominant position in the economy of Inner Mongolia and a leading role in the banking business of China.[17] Among the prominant banking figures from Shansi in Modern China have been such men as H. H. Kung (K'ung Hsiang-hsi), former finance minister of the Nationalist Government and president of the Bank of China; Po I-po, one-time guerrilla leader and later minister of Finance of the People's Republic; and Chi Ch'ao-ting, director of economic research at the Central Bank of China under the Nationalist Government, and under the Communist regime secretary-general of the Committee for the Promotion of International Trade and a director and assistant general manager of the Bank of China.

177 ## III. THE MODERN PERIOD

A. The Invasion of the West

After the middle of the nineteenth

17. Eberhard, A History of China, p. 278; Lattimore, op. cit., pp. 92-95.

1:Stanford U. S-4, 5 1956 AF12 North China AF12

Annex "A," Subparagraph 3d,
Economic Background

BANKING AND CURRENCY[1]

I. THE ELIMINATION OF THE OLD BANKING STRUCTURE

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366 Before discussing the banking structure in North China, it is necessary to discuss briefly the shift of China's banking center from Shanghai to Peking/

In pre-Nationalist days there were two chief banking centers in China -- Peking and Shanghai. Peking was the location of the head offices of the Bank of China and of the Bank of Communications the two semi-government banks and a few important modern banks in addition to the native banks. The major foreign banks had special representatives in their Peking branches who were in charge of negotiations with the Peking government (not to be confused with the Peking regime of today). Shanghai was the headquarters for foreign banks as well as a number of modern Chinese banks and many native banks.

In 1928, as soon as the Nationalist Government was set up in Nanking, the head offices of the Bank of China and the Bank of Communications and of the major Chinese modern banks

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1. Unless otherwise indicated, specific information in this chapter is based on private information from the author, Dr. K. N. Chang.

were transferred to Shanghai. Moreover, the head office of the Central Bank of China, a government institution founded in 1928, was also located in Shanghai. Thus Shanghai became the sole banking center of China.

In October 1949, when the Communists had established their central government in Peking they prepared to make Peking the center of major banking activities. The head office of the People's Bank of China was set up there, and the head offices of the Bank of China and of the Bank of Communications were ordered to return. When, toward the end of 1952 the old banking structure in Shanghai was completely eliminated, the Communists' goal was reached and Peking had become the financial center of China.

The fact that North China had neither been a stronghold of foreign banking in China nor a bulwark of Chinese commercial banking facilitated the Communists' task of eliminating the old banking structure in the area. Tientsin, for example had been an important North China banking center, comparable to Shanghai in East China, but the number resources, and volume of business of Tientsin banks had been much smaller than the comparable figures in Shanghai. For example, the amount of deposits in Chinese Commercial banks in pre-Communist days in Tientsin seldom exceeded one-tenth of that of the banks in Shanghai. In Hopei there had been a few branches of government and modern commercial banks only, and the local registered commercial

1:Stanford U. S-4, 5 1956 AF12 North China AF12

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and native banks were of no consequence. Furthermore, severe restriction had been imposed on all foreign banks in Tientsin and Peking during the Japanese occupati on, and operations there had hardly been resumed before the Communists overran North China.

Shansi Province had been under the control of a warlord until the Communists assumed control. It had been the warlord's policy to concentrate the main banking business in the hands of the Shansi Provincial Bank, and to keep outside banks from extending their activities in his province. As a result with the exception of one branch of each of the government banks, all in the provincial capital, there were virtually no modern commercial banks represented in Shansi.

As soon as the Communists occupied Peking, Tientsin, and other cities of Hopei Province, they closed down the branches of the Central Bank of China and of the Farmers Bank of China; branches of the Bank of China and the Bank of Communications were placed under government supervision, assisted by certain staff members who belonged to the Communist Party. In April 1949, regulations governning private banks were issued; these restricted the banks' operations and interest rates. The amount of reserves to be kept with the People's Bank and the forms of frequent periodical reports were so stringently stipulated that few of the banks could profitably operate. Immediately after the effective date

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366 of the new regulations, the locally registered commercial banks and more than half of the 85 native banks were forced to close because they were unable to increase their capital as required. The rest of the banks were strictly controlled by means of their periodic reports, and with the co-operation of the Communists on their staff.

The banks which survived the initial regulations were advised to form groups for the purpose of making joint loans. In Tientsin, for example, two groups were organized by commercial banks and one group by all the native banks as a result of this "advice." In so encouraging the formation of larger aggregates, the Communists aimed to force out the smaller banks and prepare for the final amalgamation of the larger ones, thus establishing the pattern to be followed in other areas.

In September 1950, all the native banks remaining in Peking were advised to discontinue their business and transfer their capital to the Peking Municipality Hsing Yeh Joint Stock Investment Corporation, a joint public-private organization. At the end of 1951 the surviving 29 native banks in Tientsin were directed to merge into one bank, in which government capital would participate. The commercial banks remaining in Peking and Tientsin at that time were mostly branches of banks with head offices in Shanghai; they were automatically converted into joint public-private organizations as their head offices underwent

453 366 that transformation. A final merger of all branches into a single joint state-private bank occurred in December 1952.

Eliminating the old banking structure in Shansi Province was a much simpler and swifter process. The Communists took over the Shansi Provincial Bank and confiscated the few commercial banks, giving as reason that their capital was owned by "reactionaries." The native banks were forced out at about the same time by requiring them to increase their capital.

457 Foreign banks had operated in only two cities in North China, Tientsin and Peking. Early in the Communist regime, they had the illusion that they might be of service by providing export-financing facilities, thus greatly contributing to the attainment of the Communist goal of increased exports so essential to the economic life of North China. But these banks found themselves without functions as soon as foreign exchange operations were concentrated in the Bank of China. Foreign trade business gradually became a monopoly ofthe government trading organizations. Beginning late in 1951, the foreign banks separately applied for approval to withdraw from China. Though some of them had not received such approval as late as 1954, all foreign banks discontinued operations before the end of 1951.

453 Accordingly, the elimination of the old banking structure in North China was virtually com-

453 pleted only a little more than one year after the the Central People's Government was established in Peking.

426 The pawnshop, a minor monetary organization had been a useful credit mechanism serving needy people. It appeared to be more useful in North China than in the south, because the poverty of the people was more pronounced in the north. The poor were more than willing to obtain funds from the pawnshops by paying high interest, at the rate of 3-4 per cent monthly. The working capital of the pawnshops was mainly supplied by the native banks; in small towns even the banks themselves operated pawnshops. The Communists not only prevented the native banks from extending credit to the pawnshops, but also required the latter to increase their capital; as a result, the pawnshops were forced out of business even before the native banks.

652 Development of the Communist monetary stru-
453 cture began with the birth of the People's Bank of China first established in Shihchiachuang, Hopei Province, on December 1, 1948. After the Communists assumed governmental function on October 1, 1949, the new banking system was set in motion. The People's Bank of China is now the supreme monetary agency, entrusted with the issuance of banknotes and having other undefined powers in monetary matters, including the control of private monetary organizations. Thus the Bank

652 of China, specializing in foreign exchange, and
453 the Bank of Communications, in financing industry, were both placed under the direction of the People's Bank after they were reorganized during 1949-50. This was followed by the establishment of the Chinese People's Construction Bank and of the Agricultural Bank of China. The structure was rounded out by the addition of the Chinese People's Insurance Company an instrument for the accumulation of long-term funds, and the Credit Co-operative a banking mechanism reaching the basic level. Existence of the joint public-private bank seems to be a fleeting phase; it is doomed to extinction as soon as private enterprise dies out.

All the named institutions operate under the control of the People's Bank of China.

II. THE PEOPLE'S BANK OF CHINA

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No regional office of the People's Bank had ever been established in North China, as it has been in other areas. However, a special organ called the North China Business Administration Bureau was established for the purpose of controlling the branch offices of this area. The branch office in the capital of each province is the highest agency in charge of governing the subordinate offices within the province. The branch office of Hopei Province is in Paoting and that of Shansi Province in Taiyuan. The Peking and Tientsin offices, although located in Hopei

652 of long-term and short-term credits to jointly operated agricultural, stock-raising, fishery, mutual-aid, and co-operative organizations, as well as to individual producers; (b) the disposal of capital investments allocated in the state budget for agriculture, forestry, and water conservation; (c) the supervision of the people's credit co-operative organizations; and (d) the provision of savings deposit services for rural residents, producers, mutual-aid and co-operative organizations, collective farms, and state agriculture and water conservation agencies.

According to an official announcement, the function of handling capital investment appropriated in the state budget will be conducted by the People's Bank. The little news published concerning the installation of branches of the Agricultural Bank indicates that banking business in rural areas is still handled by the subordinate offices of the People's Bank, and that the new bank at present is engaged in the promotion of the extension of credit co-operatives and the supervision of rural credits.

VII. JOINT STATE-PRIVATE BANKS

453 652 There were 16 commercial banks in Tientsin when the Communists took over Tientsin and Peking; 15 of these were branches of banks with head offices in Shanghai, and only one had its head office in Tientsin. These banks had sub-

652 branches or agencies in Peking. Toward the end
453 of 1951, ten banks were converted into joint public-private enterprises and the others were eliminated for various reasons. Thus all commercial banking in North China came under government control. In 1952, all banks in Shanghai were merged into one, and their branches in Tientsin and Peking were amalgamated. The newly formed branches became branches of the Joint State-Private Bank. This bank was not permitted to open any new offices in North China, and its head office was transferred from Shanghai to Peking in 1953. The bank is entrusted with the following functions: (a) the handling of accounts of private enterprises; (b) the extension of short-term credits to private enterprises, subject to the advice of the People's Bank; (c) the handling of overseas Chinese remittances through the branches of component banks still operating in Hong Kong for the account of the Bank of China; the handling of inland remittances; and (d) the acceptance of savings deposits for the account of the People's Bank.

The Communists' scornful opinion of the private banks was illustrated during the merger by the installation of a new board of directors and the appointment of representatives of the People's Bank to all key positions. The appointment of 103 directors to the board is far out of proportion to the limited scope of business of the bank and its fourteen branches. The offices of chairman

of the board and chief manager of the joint-management are occupied by the assistant managing director and by the manager of the Shanghai branch of the People's Bank, respectively; the representatives of the private banks are only assistant managers. The manager of the former Tientsin branch of the Shanghai Commercial and Savings Bank is the only northern banker among the seven assistant managers.

VIII. CREDIT CO-OPERATIVES

In North China the development of credit co-operatives began under the Communist regime. The conquest of the China Mainland progressed from the north through sections of Shansi Province where credit co-operatives are now used extensively. At the end of June 1953, the two provinces of North China had 2,303 credit co-operatives;[7] the five provinces of Central-South China had only 3,585 credit co-operatives. In absolute numbers, North China had 33.5 per cent and Central-South China 56.5 per cent of China's credit co-operatives. The number of credit co-operatives in Shansi Province far surpassed the number in Hopei Province. In terms of credit co-operatives Shansi Province holds a leading position in the race with Kiangsi Province in Central-South China, the stronghold of the Chinese Soviet during 1930 and 1934.

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7. Ta-kung Pao [Ta-kung Daily] , Tientsin, January 22, 1954.

4: Burgess E-4, 5 (1926-1927) 1928 AF12 North China AF12

water company, match factory, glass factory and government uniform factory. The telephone company, electric company and water company have covered practically the entire city with their lines, and all give fairly efficient service. 178

The match factory is reported to be doing work on thoroughly efficient modern lines, but employing a great number of children. A more detailed report cannot be given, as this was the one place in Peking to which we were denied admission.

The glass factory stands as a warning to those who would introduce modern methods and modern machinery in China without first training men to operate and care for the machines. The machinery was imported and the factory built at an expense of nearly one million dollars; but as no trained men were available, the machinery was broken and the factory had to be closed down.

While the big glass factory with its complicated machinery has been a failure, one of the Buddhist Temples in the South City is running a small factory turning out lamp chimneys and window glass, which require but little machinery. Two furnaces are kept in constant operation, and the work is done by some thirty workers and seventy apprentices. The workers are paid from $30 to $50 a month, while the apprentices receive from 50 cents to $3 a month. The hours of work are from 3 a. m. to 5 p. m.

The Government in its uniform factory, established by the Board of War in 1912, is making equipment for the army under modern factory conditions, and is using modern machinery and quantity production method in some lines, while in others the old system of hand work prevails, though on a larger scale than is ordinarily found in any of the Chinese shops.[1]

Peking is also a center of national finance and the headquarters not only of important Chinese banks but also of foreign organizations, which are centered there in large numbers. Their transactions, however, have little to do with the industrial situation in the city. 453

[1] Gamble and Burgess, *op. cit.*, pp. 219, 220.

4: Burgess E-4.5 (1926-1927) 1928 AF12 North China AF12

envy and hostility of the Wenchow traders, and suffer insult and injury, we have no adequate means of redress. Mercantile firms, if each looks only after its own interests, will experience disgrace and loss, the natural outcome of isolated and individual resistance. It is this which imposes on us the duty of establishing a club.[1]

In this study some evidence was found that some of the guilds in which membership was formerly confined to those of one district may have originated in this way. The following description given by a representative of the Tailors Guild would bear out this theory:

This profession, we are told, originated in the South. The tailors who first came to Peking found it very difficult to find a lodging-place; so they called a meeting of their fellow-tradesmen to discuss the difficulty. The first proposal was that one per cent of everyone's salary should be given towards the organization of the guild and the building of a guild headquarters. The fund asked proved insufficient, so customers were asked for contributions. With these funds the Guild House was established during the Ming dynasty.

The Actors, in like manner, originally came from Anhui, and it may be possible that the Actors Club originated in close identity with the Actors Provincial Club, although the available material does not furnish any evidence along this line. The Water Carriers in Peking are almost entirely from Shantung, and the Bankers are invariably from Shansi.

(4) Another explanation of the origin of the guild may be found in the study of the inherent reasons for guild organization present both in contemporary Chinese society and in the ancient social structure. From of old the officials have levied taxes of one kind or another on commercial trans-

[1] Morse, *op. cit.*, p. 44.